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*File 1P-378*

*Office Memorandum* • UNITED STATES GOVERNMENT

TO : Chief, St/PC  
 THRU : Chief, Economic Research  
 FROM : Acting Chief, St/FR

*E. L. G.*

DATE: 15 December 1954

SUBJECT: Project No. 14.629, [REDACTED]  
 25X1C [REDACTED]

25X1C

Attached is a copy of the results of subject project for your files. The contribution was forwarded by D/A to SA/AD/RR on 10 December 1954.

[REDACTED]

25X1A

St/FR/RR  
 CLF:whx  
 14 Dec 54

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CENTRAL INTELLIGENCE AGENCY

Office of the Chief, Economic Research

Office of Research and Reports

Project Action Memorandum

Project No. 14,629

25X1C

DATE: 7 December '54

TITLE: Comments [REDACTED]

REQUESTER: DD(1)

STATEMENT OF PROBLEM AND TERMS OF REFERENCE:

25X1C

General comments on the above entitled subject as requested by [REDACTED] dated 23 November 1954, and cover sheet by SA/RR.

RESPONSIBILITY:

Action Division:

Branch:

Staffs:

D/A

A/U

St/RR

Man-Hours

Due Date

Concurrence  
(Initials)

cob 9 Dec 54

30

R.V.G.

J.C.M.

25X1A

Project Monitor: [REDACTED]

2803

This project will not delay completion of currently scheduled projects.

The classification of this project will be no higher than SECRET.

APPROVED E.L.A. Ch/E

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10-378

Evaluation [REDACTED]

(Project 14-629)

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The brevity of time allowed for perusal and evaluation of the memorandum does not permit detailed examination of the components of the accounts. In addition CIA research has considered only the 1951 accounts thus far, so there are no alternative estimates to present for the other three years. Therefore, the discussion will be confined to analyzing some of the important aggregative by-products of the basic accounts.

2. The memorandum begs the question of factor cost adjustment by asserting (pages 13 and 14) that there is a deficiency of information concerning the distribution of indirect taxes within the economy and that the multiple price system, income in kind, and the general dearth of statistics make it impossible to arrive at a satisfactory appraisal of "factor cost" in Soviet agriculture. The first assertion is correct as regards distribution of product by sector of origin, but overstates the difficulties involved in distributing the tax burden by end uses. Since the turnover tax is presently applied only to consumer goods, except for petroleum products, the incidence of the tax can be placed almost entirely on consumption. The only other taxable items would be (1) food and petroleum products sold to the armed forces, (2) the same rates to the paramilitary and police forces, (3) the same rates to medical and welfare institutions, and (4) transfers of taxable amount of these latter activities is small and can be estimated with small margin of error. The remainder of the tax burden, well over 90 percent of the total, can be presumed to rest on consumption.

3. In pursuing the next step in our analysis, the determination of the

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proportion of the turnover tax allocated to identifiable factor cost, we also aim at approaching an estimate of actor cost within agriculture. The procedure involves comparison of US and USSR factor shares (percentages of the total) for three products representative of agricultural production--flour, beef, and cotton cloth. For the US the sharer are farmer and processor--distributor incomes; for the USSR there two recipients plus explicit (in kind) MTS payments and the turnover tax. If it be assumed that the substitution of the turnover tax by an income tax and the transfer of agricultural machinery from the MTS to the farms would mean that the farmer's share of product in the USSR would equal that of the US farmer, it becomes possible to determine the proportion of turnover tax allocated to land rent and uncompensated MTS services. For

each product the solution becomes:

$$\frac{F_{us} - F_{su} / M_{su}}{T_{su}} = T_{FC}$$

Where:  $F_{us}$  = US farmer's share in percent

$F_{su}$  = Soviet farmer's share in percent

$M_{su}$  = Explicit MTS share in percent

$T_{su}$  = Rate of turnover tax

$T_{FC}$  = Proportion of turnover tax allocated to identifiable factor services.

As applied to 1951 relationships, 75 percent of the tax on products of agricultural origin, or 67 percent of the total turnover tax can be ascribed to factor services. In making a division of total product either by origin or use only the portion of the tax not allocated to the identifiable factor services need be deducted from market price valuations in order to arrive at factor cost estimates.

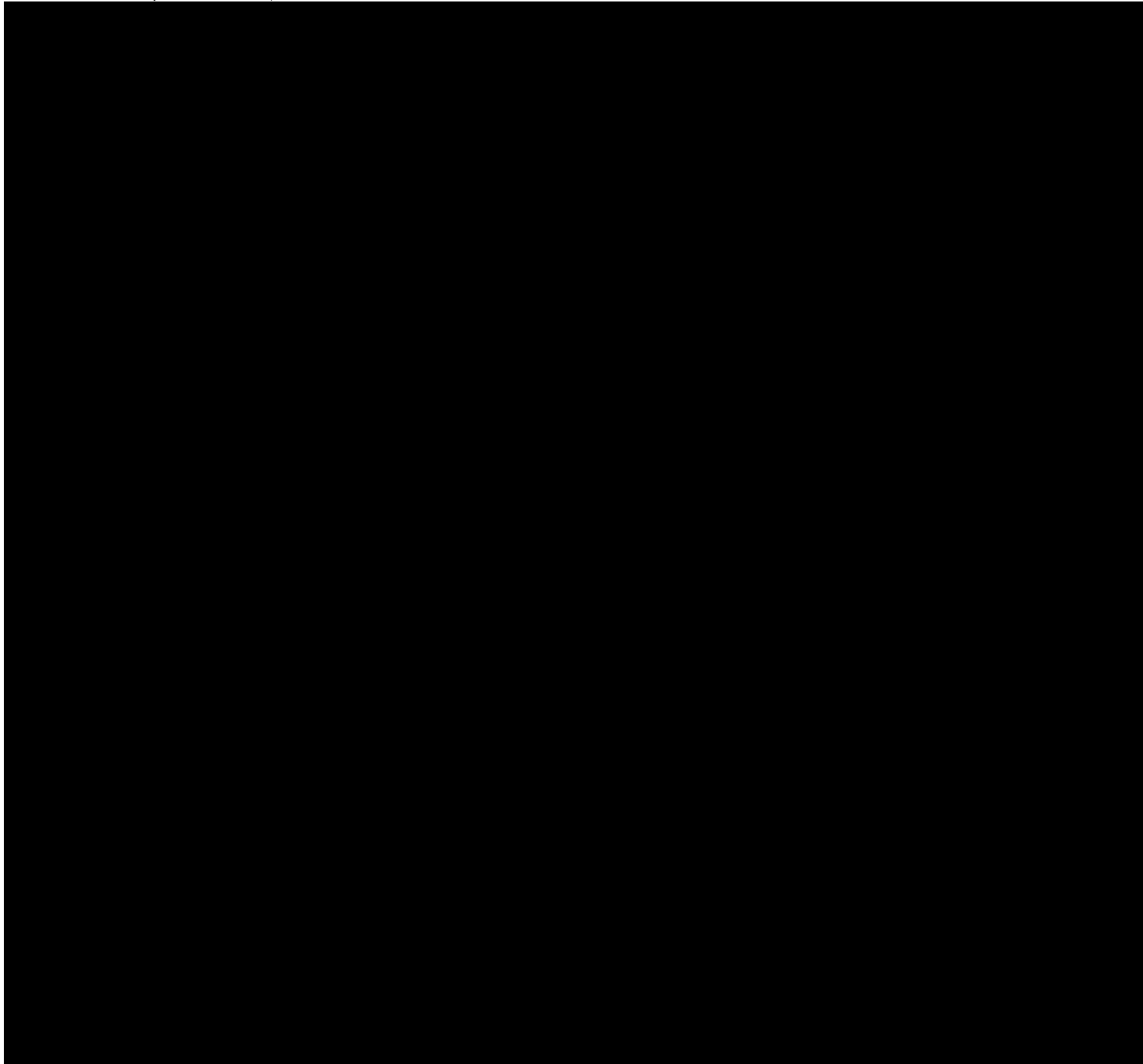
4. We would tend to agree with the sector and general ruble-sterling

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ratios would be higher and our social services and administration ratio lower than Hove's. The defense ratio is identical. The overall rate is almost the same. Abstracting from the effects of using the official dollar-sterling exchange rate, we find no superiority in our estimates, except that our sample is larger.

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real  
5. The estimates as to the value of consumption and investment on pages 8 and 9 involve the calculation of price indices. The construction of consumption index is adequately explained in Appendix F, but no light is shed on the way in which the investment price index is computed. Both the price decline and volume increase between 1951 and 1953 are greater than changes in the appropriate capital investment data would indicate.

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rise for working capital and stocks must be considerable. Evidence available to us does not support this conclusion.

*Text* 6. Last the foregoing comments leave an impression of general dis-satisfaction with the memorandum, be assured that they are intended only to illuminate and suggest solution of some of the deficiencies arising in the application of the basic accounts. The accounts themselves reflect exhaustive and thorough scholarship and form a worthy and extensive contribution to an understanding of the Soviet economy.

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